scope for dividends to increase over time. The importance of divi-
dends becomes apparent when they make up an increasing pro-
portion of total market returns. This is particularly so in the con-
text of an overall slowing growth market,” says the report.

A key reason behind the emergence of a dividend culture in
Asia lies in government support for more shareholder-friendly
policies, such as initiating or increasing dividends, and other
capital initiatives for investors, says Morningstar. “In addition,
the governments in the region are hoping for an increase in stable
global ownership of listed firms, which reduces their domestic re-
sistance,” it says.

For example, in South Korea, the government levies penalties on
firms that are seen to be hoarding cash rather than distributing it
to shareholders. Meanwhile, the in-
trouduction of the Nikkei 400 In-
dex in Japan emphasises corpo-
rate-governance factors, quality
and return on equity, which are
likely to lead to a higher divi-
dend yield.

“Other markets such as Taiwan
and Australia have long-standing
tax policies that encourage firms
to pay dividends to sharehold-
ers. Even in China, the govern-
ment has encouraged its powerful state-owned enterprises to place a greater emphasis on sharehold-
er return, and this has flowed through to dividends and other capital initiatives. Similarly, the
expansion and opening up of the
onshore A-share market has seen
selected firms use dividend poli-
cies as a way to encourage glob-
al ownership,” says the report.

Corporate governance is seen as a way to increase dividends. Ac-
cording to Morningstar, companies in the region that have been look-
ing to introduce or increase divi-
dends have been improving corpo-
rate governance and strengthening shareholder alignment.

The report says one of the
arguments used when it comes to increasing dividend paying is that being dividend-focused will come at the
expense of growth and is likely to
result in lower returns. Morning-
star, however, points out that the
MSCI AC Asia Pacific ex Japan
High Dividend Yield Index has
fared considerably better than the
MSCI AC Asia Pacific ex Japan
Index. Moreover, it has managed to do so with lower volatility (see chart).

“Both income- and growth-foc-
cused investing have a role to play when it comes to Asian equi-

tives. The growing middle-
class consumers and positive demographics, lend themselves
to both streams of investing,” says the report.

It adds that the factors that have made dividends more at-
tractive in Asia are not likely to
recede anytime soon. “The Asian

EQUITY MARKET DIVIDEND YIELDS

<table>
<thead>
<tr>
<th>GICS SECTOR</th>
<th>YIELD (%)</th>
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<tbody>
<tr>
<td>MSCI Japan</td>
<td>1.93</td>
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<tr>
<td>S&amp;P 500</td>
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<td>MSCI AC World</td>
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<tr>
<td>MSCI Emerging Markets</td>
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<td>MSCI Europe</td>
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Morningstar medallists

<table>
<thead>
<tr>
<th>Fund Strategy</th>
<th>Morningstar Rating</th>
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<tbody>
<tr>
<td>First State Asian Growth II</td>
<td>Silver</td>
</tr>
<tr>
<td>First State Asian Growth</td>
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</tr>
<tr>
<td>Investa GSF Asian Eq &amp; Acc USD</td>
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<tr>
<td>Investa Asia ex Jpn A Acc Net</td>
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<td>JPMorgan Asia ex Jpn EUR Inc</td>
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<td>MSCI ASIA Funds Pacific Tiger A USD</td>
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<tr>
<td>Schroder Asian Alpha Plus &amp; Acc</td>
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<tr>
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<tr>
<td>Schroder ISF Asian Gpi Acc A</td>
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<td>RFJ Asian Dragon A2</td>
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<tr>
<td>BlackRock Asia A-ACC GBP</td>
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<td>Fidelity Asian Special A-USD</td>
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<tr>
<td>Value Partners Hi Div 50s A1 Inc</td>
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Morningstar invests for a role to play when it comes to Asian equity

Asian Small/Mid Caps Equity Morningstar medallists

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<tr>
<th>Fund Strategy</th>
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<tr>
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<tr>
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<td>Stewart Investors Asia Pacific B Acc GBP</td>
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<td>Templeton Asian Small Caps A USD</td>
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</tr>
</tbody>
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Puthina Subramaniam is a senior writer at The Edge Malaysia

How to fast-track your retirement

SOME people dislike working. They
prefer to retire as soon as possible.
This article is for them. To fast-track
something is not easy. It requires one
to take actions that defy convention-
al wisdom.

First, “Always be a business owner, not a lender”

The easiest way to own a business is
to buy shares in the stock market. If you
own a share, it means you are a business
owner.

Businesses earn the highest re-
turns. The median return on equity of
Singapore listed companies is 9%. If
you choose to lend money, fixed de-
posits give you 1% and risky corpo-
rate bonds give you 6%.

You get measly returns from being
a lender, so be a business owner.

Sometimes, the risk you take from buy-
ning poor-quality corporate bonds is as
much as being a business owner. To
retire early, own a business.

Second, “Eat 100% of cash you don’t need into stocks”

Don’t invest in commodities, gold,
banking, overseas properties, doughnut shops, hippie cafes, fixed
deposits, bonds and flavour-of-the-
month units.

If you do that, your overall portfo-
lio average return will be 2% per year.
$100,000 growing at 2% for 10 years
is going to be $122,000.

Instead, putting $100,000 into stocks
will net you $216,000 over 10 years at
an 8% rate of return. The 8% return is
the long-term average of the Singa-
apore stock market. $122,000 versus
$162,000? You decide.

Third, “Invest only in small capitalisa-
tion value stocks”

Small capitalisation means small com-
panies. Value is short for “value invest-
ing”. Value means stocks that have
characteristics such as low price-to-
earnings ratios, low price-to-book ra-
tios and high dividend yields. Study af-
ter study has demonstrated that they
give the best returns over the long term.
If you want to achieve returns of 10% or more per annum, buy small capitalisation value stocks.

Fourth, “Be massively diversified. Own at least 100 stocks in different coun-
tries and industries”

Most investors have only 10 to 15
stocks. If you have 10 to 15 stocks,
you will form an emotional bond with
your stocks. If one of them is sick, you
would not be able to sleep at night.
When you have an emotional bond, you
will make mistakes — such as not cut-
ting losses when something is evidently
wrong and holding on to your winners
till they become losers.

Instead, have at least 100. Don’t just invest in Singapore stocks. Go re-
gional, or even global, invest in Hong
Kong, China, Thailand, Korea and so
on. Go to the country that is having a
crash sale in stocks.

Treat your stocks like a farmer treats
his 100 chemicals. When they are fat-
tened, slaughter them and bring them
to the market. Do not ever give a name
to your chemicals, or stocks; they are
not your pets.

Fifth, “To master risk, change the way you think about risk”

When you see your share price drop, it
does not mean that you participated in
a risky activity and you are now paying the
price. It just means that some dum-
my who does not understand the true
value of the stock sold it, and some-
one smarter on the other side of the
transaction who understands fair val-
ue bought it. The seller probably sold it
because he is a nervous chap and he is very worried about The Donald,
May, North Korea, Global Warming and the Monster Under His Bed.

Sixth, “The Way to Wealth: Value invest-
ing”

Value investing means buying a stock for 50 cents when its true value is one
dollar. Why would anyone sell you for
50 cents? Either they are mad, scared, or both. Humans go berserk from time to time. When that happens, relieve their anxiety and pay them their 50 cents for a dollar’s worth of stock.

Seventh, “Penny pinch. Use that mon-
ey to buy stocks”

You don’t need that German car. Buy stocks instead.